2007

Annual Report

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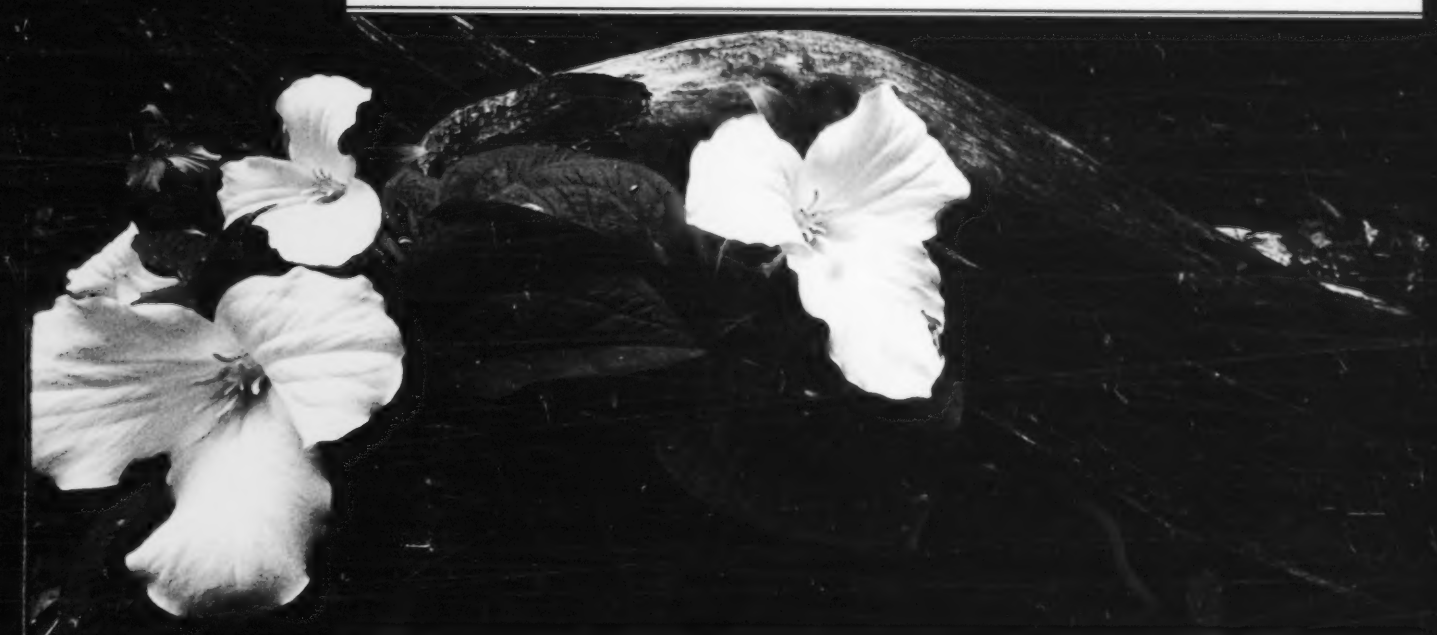
Ontario Financing Authority



Ontario

Mandate

The Ontario Financing Authority (OFA) was established by the Capital Investment Plan Act, 1993 (CIPA), and performs the following activities:

- conducts borrowing, investment and financial risk management for the Province of Ontario
- manages the Provincial debt
- provides financial and centralized cash management services for the government
- advises ministries, Crown agencies, and other public bodies on financial policies and projects
- assists Crown agencies and other public bodies to borrow and invest money
- acts as an intermediary for the Province in lending to certain public bodies and invests on behalf of some public bodies.

The OFA also provides a broad range of financial services to the Ontario Electricity Financial Corporation (OEFC) and Infrastructure Ontario (Ontario Infrastructure Projects Corporation).

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Statement from the Chair and the Chief Executive Officer

We are pleased to report that 2006–07 was another successful year for the Ontario Financing Authority.

The OFA raised $18.7 billion on behalf of the Province of Ontario and the Ontario Electricity Financial Corporation (OEFC) at competitive terms in the capital markets. The interim long-term borrowing requirement was $18.7 billion, a decrease of $2.1 billion from the $20.8 billion estimated in the 2006 Budget Plan. This decline was largely due to the elimination of the deficit. Total savings relative to the performance benchmarks for borrowing, money market and debt management activities were $86 million.

The OFA supported the government's priorities by providing financial advice and services to a number of public sector organizations. For instance, it provided $758 million in loans to school boards to support the Ministry of Education's *Good Places to Learn* program at lower financing costs. The OFA also provided financial advice to support infrastructure and transit initiatives.

The OFA also supported the government's initiatives for Ontario's forestry sector. For example, it facilitated efforts to restructure St. Marys Paper in Sault Ste. Marie.

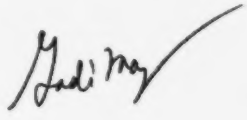
The OFA was involved in the negotiations between Ontario and the owner of Teranet on the terms and conditions under which the Province would approve the sale of the company. Teranet was converted to an income trust, with net proceeds of $519 million to the Province. In addition, the OFA advised on the OEFC's financing to Ontario Power Generation Inc. (OPG) for the Portlands Energy Centre and Lac Seul hydroelectric projects, in amounts of up to $400 million and $50 million, respectively.

The OFA assisted the Ministry of Finance in developing an agreement with the Canada Revenue Agency on the transfer of the corporate tax function that safeguards the timing of the Province's cash flows. With the Ministries of Finance and Government Services, the OFA led the government's initiative to ensure that the Province's cheques comply with the Canadian Payments Association's new clearing standards.

Looking forward to 2007–08, the OFA will continue to provide cost-effective borrowing, financial and debt management services. The long-term borrowing requirement is forecast at $18.8 billion, primarily because of debt maturities and redemptions totalling $15.3 billion. The OFA will also engage in public-sector financing initiatives and will continue to provide advice and support on financial aspects of electricity sector developments.

We would like to take this opportunity to thank the members of Board of Directors for their advice and oversight during the fiscal year, and look forward to working with them in 2007–08.

Colin Andersen
Chair



Gadi Mayman
Chief Executive Officer and Vice-Chair

Management's Discussion and Analysis

Economy

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Financial, Cash Management and Banking Services

Financial Advice

Management's Discussion and Analysis

This section details Management's discussion and analysis of the OFA's results in 2006–07 and its objectives for 2007–08, beginning with a review of the economy and financial markets in 2006 and the outlook for 2007–08 as of June 2007.

Economy

The global economy recorded strong growth in 2006, with real output rising an estimated 3.9 per cent, according to the May *Consensus Forecasts* report. Global activity is projected to remain healthy, rising by 3.3 per cent in 2007 and 3.4 per cent in 2008.

The United States is Ontario's largest trading partner, accounting for over 86 per cent of its international merchandise exports. The U.S. economy grew 3.3 per cent in 2006, marginally higher than the 3.2 per cent in 2005. The June 2007 *Blue Chip Economic Indicators* survey calls for U.S. real gross domestic product (GDP) growth of 2.1 per cent in 2007 and 2.9 per cent in 2008. The U.S. auto industry and housing sector continue to show weakness, weighing on U.S. growth and negatively affecting Ontario's exports.

Oil prices averaged $66.1 US a barrel in 2006, the fourth consecutive record-setting year. Other key commodity prices increased sharply as well. Oil prices fell below $50 US per barrel in early 2007, but rebounded to trade around $65 US per barrel because of rising fears that geopolitical conflicts could disrupt supplies from key oil-producing countries. Forecasts for an active 2007 Atlantic hurricane season, refinery outages, strong global demand, Organization of the Petroleum Exporting Countries (OPEC) output cuts and tepid non-OPEC supply growth have also driven oil prices higher. The average private-sector forecast for oil prices in 2007 is currently $61.8 US per barrel. This would be the first annual decline in oil prices since 2001.

The Canadian dollar rose to an average of 88.2 cents US in 2006, up from 82.5 cents US in 2005. The Canadian dollar appreciated from a low of 61.8 cents US in January 2002 to a peak of 94.7 cents US in June 2007, a 30-year high. The strong Canadian dollar is a challenge for Ontario manufacturers who sell their goods in an increasingly competitive global marketplace. Private-sector forecasters expect the Canadian dollar to average 89.5 cents US in 2007.

Ontario's economy weakened in 2006, with overall real GDP growth of 1.9 per cent, down from 2.8 per cent in 2005. This softening in the economy reflected the negative impact of higher oil prices, the strong Canadian dollar, higher interest rates, restructuring in the auto sector and weaker U.S. demand. Final domestic demand — the sum of consumer spending, business investment and government spending — remained strong in 2006, rising by 4.0 per cent, following a gain of 3.8 per cent in 2005. Domestic growth was led by healthy business investment and strong consumer spending. This was partially offset by weaker trade performance, with exports up only 0.5 per cent, while imports surged. There was an improvement in economic growth in the fourth quarter of 2006, and economists expect growth to strengthen through 2007 and accelerate over the medium term.

Financial Markets

The Bank of Canada has maintained its benchmark target for the overnight interest rate at 4.25 per cent since May 2006. In its latest policy statement, the Bank of Canada moved to a much more hawkish stance, acknowledging that both economic growth and inflation have exceeded its expectations. Most forecasters expect the Bank to raise interest rates in 2007. Private-sector forecasts expect three-month treasury bill yields to average 4.3 per cent in 2007, up from four per cent in 2006. The yield on 10-year Government of Canada bonds is expected to average 4.4 per cent in 2007, up from 4.2 per cent in 2006.

The U.S. Federal Reserve has kept interest rates unchanged since June 2006 as economic growth has slowed. Core inflation has trended down in the U.S., but remains above the Federal Reserve's comfort zone of about two per cent. Growth is expected to remain soft in the first half of 2007, reflecting ongoing weakness in housing and slower growth in consumer spending, which will exert downward pressure on inflation. Most forecasters expect the Federal Reserve to remain on hold in 2007. According to the June *Blue Chip Economic Indicators* survey, U.S. three-month treasury bill rates are expected to rise from an average of 4.8 per cent in 2006 to 5.0 per cent in 2007. The yield on 10-year government notes is expected to average 4.8 per cent in 2007, unchanged from 2006.

Capital Markets Activities

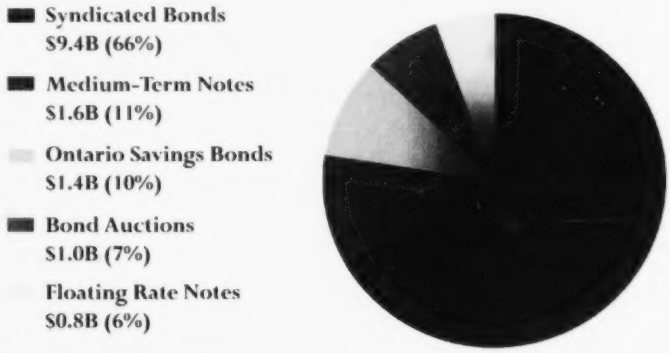
Borrowing Program

The interim long-term public borrowing requirement was $18.7 billion, a decrease of $2.1 billion from the $20.8 billion estimated in the 2006 Budget Plan. This decrease was largely due to the elimination of the deficit.

In 2006–07, $14.2 billion, or 76 per cent of the Province's borrowing program was completed in the domestic bond market through a number of instruments, including:

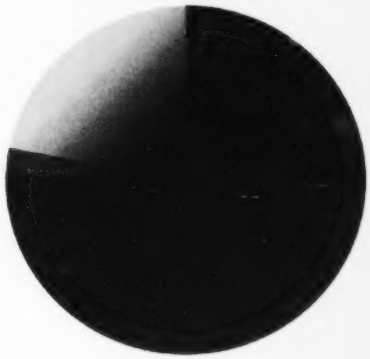
- syndicated bonds
- medium-term notes
- Ontario Savings Bonds
- bond auctions
- floating rate notes.

Borrowing - Domestic Market



Total: $14.2 billion

Borrowing - All Markets



Total: $18.7 billion

The OFA maintained a flexible approach to borrowing, monitoring both domestic and international capital markets to minimize debt service costs and diversify the borrowing program. Approximately $4.5 billion, or 24 per cent, of the borrowing program was raised from international markets, including:

- three $1 billion Global bonds in U.S. dollars
- Euro Medium-Term Notes (EMTNs) in U.S. dollars, South African rand and, for the first time, Turkish lira
- an inaugural Kangaroo (Australian dollar) bond.

Investments

The OFA manages the Province's liquid reserve portfolio to optimize investment returns and to ensure that sufficient funds are available to meet cash requirements. The average level of liquid reserves was $5.7 billion in 2006–07.

Through its centralized pooled fund initiative, the OFA assists public bodies to increase returns by improving investment processes and reducing investment costs. In 2006–07, the OFA provided investment services to nine agencies, boards and commissions, including Infrastructure Ontario, the Pension Benefits Guarantee Fund and the Deposit Insurance Corporation of Ontario. Total funds managed were $2.2 billion.

With OPG, the OFA continued to manage the investment activities of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund, established under the Ontario Nuclear Funds Agreement (ONFA). As at March 31, 2007, the combined market value of the funds was $9.3 billion, compared to a market value of $4.9 billion when the funds were formally established in 2003.

In 2006–07, 18 external investment managers were retained to invest the nuclear funds in both bonds and equities. The actual combined return was 10.85 per cent, 7.27 per cent higher than the target rate of return of 3.58 per cent (3.25 per cent plus the percentage change in the Ontario Consumer Price Index).

Objectives for 2007–08

The total long-term borrowing requirement for 2007–08 is forecast at $18.8 billion, primarily because of debt maturities and redemptions totalling $15.3 billion.

The Canadian dollar domestic market will again be the Province's main funding source. The OFA will continue to diversify the domestic borrowing program using a combination of syndicated issues, bond auctions, floating rate notes and medium-term notes. The 2007–08 borrowing program will also include the thirteenth Ontario Savings Bond campaign. The size of the campaign will depend on market conditions.

International markets will remain a significant component of the borrowing program. It is expected that about 25 per cent of the program will be executed in these markets, depending on market conditions and the availability of cost-effective opportunities.

The OFA will also manage the Province's liquid reserves conservatively, with a rate of return consistent with its investment objectives. With OPG, the OFA will continue to manage the nuclear funds investments consistent with ONFA objectives so that the Province's contingent liabilities under this agreement are prudently managed.

Treasury and administrative services to Crown agencies and funds management for public sector organizations will be provided by the centralized and pooled fund initiative to reduce investment costs. The funds will be managed in a manner consistent with industry best practices.

Investor relations initiatives related to fiscal 2007–08 included the first video web cast featuring the Minister of Finance. The Minister also led investor relations initiatives in Toronto, Montreal and New York. As well, a senior executive team met with institutional investors in Winnipeg, Vancouver and Victoria, and undertook Ontario's first outreach initiative to meet with government fund managers in Alaska.

Borrowing and Debt Management

The OFA manages the total debt for the Province and the OEFC. Total debt was $157.1 billion on a consolidated basis, interim as at March 31, 2007.

Prudent risk management policies and practices mitigate the financial risks inherent in managing large debt and liquid reserve portfolios. A variety of financial instruments, such as swaps and options, are used to manage exposures to fluctuations in interest rates and foreign currency exchange rates. Risk exposures are monitored daily and audited annually.

Total Debt Composition

$157.1 billion

- **Domestic Bonds $92.4B (59%)**
- **Non-Public Debt $22.5B (14%)**
- **International Bonds $37.6B (24%)**
- **Treasury Bills & U.S. Commercial Paper $4.6B (3%)**

Total debt is composed of bonds issued in both the short and long term public capital markets and non-public debt held by certain federal and provincial public-sector pension plans and government agencies. The majority of the Province's foreign currency issues have been swapped back into Canadian dollars.

Risk management policies are reviewed annually and amendments are approved by the OFA Board of Directors. During 2006–07 the OFA made significant enhancements to the efficiency, consistency and security of the risk management reporting process with a new mark-to-market system, which is better integrated with other OFA financial reporting systems.

Performance

The OFA monitors and measures the performance of the borrowing, debt management and liquid reserve programs. Total savings relative to the performance benchmarks were $86 million in the 2006–07 fiscal year, compared to $109 million in 2005–06.

The OFA also monitors the Province's Interest on Debt (IOD) to ensure that it is managed in a sound and efficient manner. Interim IOD costs for 2006–07 were $0.6 billion below the 2006 Ontario Budget projection due to lower-than-forecast long-term interest rates and cost-effective debt management practices.

The borrowing program's performance is measured by the difference between the all-in cost of the actual borrowing program and the all-in cost of hypothetical domestic borrowing of the same term and size, implemented evenly over the fiscal year (even-pace benchmark). The cost difference is compared to the performance of fixed income fund managers relative to a common bond market index.

During 2006–07, the cost of the borrowing program was $71 million lower than the even-pace benchmark, on a present-value basis. This corresponds to first quartile performance relative to the peer group of fixed income fund managers, and was $16 million below the performance of $87 million in 2005–06.

The debt management program's performance is evaluated based on a comparison of program savings with a risk budget. In 2006–07, the debt management program saved $8 million. This compares to a second quartile performance relative to the risk budget, down from first quartile performance of $10 million in 2005–06.

The performance of liquid reserve investments is measured relative to the returns of a custom benchmark, with a term of 45 days. The performance difference is compared to the performance of a peer group of money market managers, relative to a common money market index. The program returned 13 basis points more than the 45-day benchmark, which translates into savings of $7 million, comparable to first quartile performance in 2006–07. In 2005–06, the money market program returned 11 basis points (or $12 million in savings) in second quartile performance.

Market Risk

Market risk is the risk of loss due to changes in interest rates and foreign exchange. The OFA aims for a balanced debt maturity profile to mitigate the interest rate risk inherent in refinancing maturing debt and the floating-rate debt.

In February 2007, the interest rate resetting exposure limit was increased from 25 to 35 per cent of outstanding debt. This was done to give the OFA the ability to take greater advantage of floating rate debt if it is deemed cost-effective.

Interest rate exposure from maturing debt and floating-rate debt was 15.3 per cent of outstanding debt as at March 31, 2007, compared to 14.1 per cent as at March 31, 2006.

Debt maturities were approximately $14 billion, while debt redemptions were $1 billion in 2006–07. In 2005–06, debt maturities were $19.8 billion and debt redemptions were $1.1 billion.

Net foreign exchange exposure was 0.7 per cent of outstanding debt as at March 31, 2007, compared to 0.8 per cent during 2005–06.

All exposures were well within the Province's approved policy limits during 2006–07.

Credit Risk

Credit risk is the risk of loss due to default of bond issuers or counterparties of derivatives or other financial transactions. The lowest acceptable credit rating of counterparties for Ontario is A–. However, Ontario typically enters into swap transactions with new counterparties rated AA– or higher.

Interim as at March 31, 2007, the Province's total swap portfolio was notionally valued at $100.8 billion, compared to $97.3 billion in 2005–06. The portfolio consisted primarily of $31.4 billion in cross-currency swaps (2005–06 – $28.4 billion) and $68.3 billion in interest rate swaps (2005–06 – $64.7 billion). At year-end, over 80 per cent of swap counterparties had credit ratings of AA– or higher, unchanged from 2005–06.

Liquidity Risk

Liquidity risk is the risk that liquid reserves and short-term borrowing capacity will not be sufficient to meet the Province's cash requirements. This risk is controlled through the management of operational cash flows, liquid reserve levels and short-term borrowing programs.

Treasury Bill and U.S. Commercial Paper programs have authorized limits of $12 billion ($6.0 billion for the Province and $6.0 billion for the OEFC) and $2.5 billion, respectively. This is unchanged from 2005–06.

Credit Rating Agency Relations

The Province requires ratings from recognized credit rating agencies to issue debt at favourable conditions in the capital markets. The OFA ensures credit rating agencies understand government policies and budget direction as well as economic and fiscal performance, and properly reflect these in their reports and decisions. Through the OFA, the government maintains a one-window contact with the agencies to ensure that information requests for government policies and other information is consistent and coordinated.

Following the release of the 2007 Budget, DBRS confirmed the Province's AA rating on April 23, 2007, Moody's confirmed its Aa1 rating on May 1, 2007 and Standard & Poor's confirmed its AA rating on May 4, 2007.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The OFA manages operational risks through divisional procedures and contingency plans as well as appropriate staffing and training, all of which are reviewed on an ongoing basis.

Business Continuity Planning

The OFA's Business Continuity Plan (BCP) ensures that critical operations are completed in a timely manner in the event of a business disruption. BCP advisors and recovery team leaders maintain contact with the Ministry of Finance and other government organizations to ensure that the BCP is aligned with the other areas of the Ontario government. The OFA conducts BCP tests and training sessions on a regular basis.

The reliability of information technology and computing systems is crucial to ensure that the OFA carries out its mandate efficiently and effectively. Systems were maintained at a high level during 2006. To this end, Ontario Internal Audit completed the first stage of an intensive three-year audit of internal controls, including computing systems. It did not identify any exceptions that would result in a qualified opinion.

Objectives for 2007–08

Cost-effective and prudent debt management strategies will continue to be key objectives in 2007-08.

The OFA will comply with risk management policies and portfolio program limits approved by the Boards of Directors of the OFA and the OEFC. Risk management policies will be reviewed and revised as required in response to an evolving regulatory and capital markets environment.

Views supporting rating improvements will be put forward to the rating agencies as the Province continues to meet and exceed its fiscal targets as laid out in the 2007 Budget.

Financial, Cash Management and Banking Services

The OFA provides centralized cash management services to minimize interest on debt expenditures. It also delivers efficient banking services, and it is responsible for settlement and accounting operations for borrowing, debt management, investment and derivative programs.

In 2006–07, the OFA assisted the Ministry of Finance in developing an agreement with the Canada Revenue Agency on the transfer of the corporate tax function that safeguards the timing of the Province's cash flows. It also implemented a timely and accurate system for forecasting monthly retail sales tax cash receipts received from banks. The new forecasting system was featured in *Canadian Treasurer*, and the team, consisting of representatives from the Ministries of Finance and Revenue and the OFA, won a Ministry of Finance Stella Award for innovation.

Working with the Ministries of Finance and Government Services, the OFA led an initiative to ensure that the Province's cheques comply with the Canadian Payments Association's new standards, in advance of the Association's July 2007 deadline. The new standards will convert the cheque clearing process from a paper-based system to a more efficient digital system.

Following a tender process, debit and credit card acceptance services for the Province were awarded to a new supplier, with implementation commencing in early 2007. A tender process was also launched for new banking and cash management services for the Province.

During the year, the OFA advised ministries and other public sector organizations on various banking issues including the government's centralized revenue processing and revenue management improvement process.

The OFA also continued to research and monitor accounting developments that could potentially impact the Province's interest on debt. To this end it worked with the Office of the Provincial Controller to provide input to the Public Sector Accounting Board (PSAB) on their Statement of Principles – Recognition and Measurement of Derivatives. The OFA also provided PSAB with comments on hedge accounting by governments.

Objectives for 2007–08

The OFA will complete the transition to a new supplier of debit and credit card acceptance services for the Province. The tender for banking services was issued in early 2007–08. The business will be awarded, before the current contracts expire on February 1, 2008, to two financial institutions who will co-lead these services.

The OFA will continue to work with the Ministries of Finance and Revenue in the transfer of Ontario's corporation tax administration to the Canada Revenue Agency. The OFA will also continue work on the new cheque clearing standards. Finally, the OFA will respond as necessary to accounting developments, particularly those related to financial instruments and foreign currency, and assess any potential impact on debt and interest on debt.

Financial Advice

The OFA was active in providing financial advice and implementation assistance to the Minister of Finance in 2006–07; it also provided advice to other ministries, Crown agencies and other public bodies on corporate and electricity finance policies and initiatives.

Transactions

The Ministry of Education instructed school boards to convert their outstanding short-term borrowing for its *Good Places to Learn* program into a long-term financing arrangement. At the Minister's direction, the OFA implemented a loan program to finance the program's capital projects. In November 2006, the OFA advanced $758 million in loans, repayable over a 25-year term.

The OFA supported initiatives for Ontario's forestry sector. For example, the OFA facilitated efforts to restructure St. Marys Paper in Sault Ste. Marie. The OFA continued to assist the Royal Ontario Museum (ROM) with financing advice for the Renaissance ROM Project.

In addition, advice was provided on options to optimize the Province's approval and economic participation rights for Teranet, a private company that maintains and operates the electronic land registration system in Ontario. The OFA supported negotiations between the Province and the owner of Teranet on the terms and conditions under which the Province would consider approving the sale of the company. The government permitted Teranet to proceed with an initial public offering in May 2006. The sale resulted in net proceeds of $519 million to the Province.

Projects

The OFA provided advice to ministries, Crown agencies and other public bodies on a variety of policies and projects to manage the Province's financial assets and liabilities, including effective leasing policies and structures, asset reviews, value-for-money benchmarks and interest rate evaluations.

For instance, advice was provided on infrastructure projects and financing options for other ministries and public sector entities, including hospital infrastructure projects and the proposed Transit Procurement Agency. The OFA also assisted in a number of Ministry of Public Infrastructure and Renewal initiatives, including Montfort Hospital and Durham Consolidated Courthouse. It also evaluated forestry sector applications for loan guarantees and the government's Prosperity Fund grants.

Key electricity finance initiatives included facilitating loan agreements between the OEFC and Ontario Power Generation Inc. for the generating company's financing requirements for new electricity supply projects, and advising on the four-year extension of the OFA's $975 million credit facility to the Ontario Power Authority (OPA).

The OFA also assisted in the implementation of the Ontario Nuclear Funds Agreement (ONFA). It reviewed and advised the Minister of Finance on approval of OPG's new reference plan for nuclear decommissioning and waste management liability estimates. In addition, the OFA reviewed and approved OPG's annual budget for eligible expenditures under the nuclear funds agreement.

The OFA also provided analysis and advice to the Minister of Finance and the government to support electricity policies and initiatives, focusing on potential fiscal and economic impacts on the Province and the OEFC.

Objectives for 2007–08

In 2007–08, the OFA will continue to provide financial advice and assistance to the Minister of Finance, provincial ministries, Crown agencies and other public bodies on corporate finance and electricity finance policies and initiatives.

Activities will include advising ministries and agencies on cost-effective leasing policies and structures, appropriate due diligence on financing aspects of asset management projects, comprehensive advice on structuring and completing financial transactions and accurate determination of value-for-money benchmarks and interest rate evaluations.

Particular focus will be given to public infrastructure financing initiatives, including projects pertaining to public transit, roads, highways, bridges and borders, pooled capital procurement for the school renewal funding formulae, and asset reviews. The OFA will also provide advice on measures to support the forestry sector and to facilitate cost-effective borrowing by public sector organizations.

The OFA will provide financial analysis and advice to the Minister of Finance on the electricity sector and the impact of related policy initiatives on the Province's finances (including those of the OEFC) and economy.

Ongoing support will be provided for the implementation of the nuclear funds agreement, including reviewing and advising on the Province's financial guarantee to the Canadian Nuclear Safety Commission (CNSC) for nuclear decommissioning and waste management, currently $1.51 billion. This guarantee is set to expire on December 31, 2007. The requirement for a provincial guarantee will be reviewed by the CNSC in 2007, with a revised guarantee amount expected to be in effect January 1, 2008.

As required, the OFA will advise on electricity supply initiatives, including facilitating potential financing to OPG for new supply initiatives.

Summary of Financial Results

The Ontario Financing Authority (OFA) manages the Province's debt and investment of liquid reserves and recovers its costs from the Province for these services. The OFA also provides treasury and administrative services to Crown agencies and recovers its costs on a fee-for-service basis.

The OFA also administers the assets and liabilities of the former Ontario Municipal Improvement Corporation (OMIC). OMIC made loans of $79 million to various school boards due in 2010 – 2012 and financed the loans through direct borrowing from the Canada Pension Plan.

At the direction of the Province, the OFA makes loans to public bodies. In November 2006, the OFA advanced loans to school boards under the *Good Places to Learn* initiative in the amount of $758 million. Funding for these loans was provided by the Province at the same interest rate charged to the boards. The OFA recovered $151,000 in costs associated with the financing and the management of these loans. This amount reduces the OFA's cost recovery requirement from the Province.

The outstanding balance of the loans to public bodies at March 31, 2007 amounted to $1,337 million, an increase of $9 million from $1,328 million March 31, 2006 (Note 5). The increase is largely due to new school board loans of $771 million (including accrued interest) and a new loan to Infrastructure Ontario (Ontario Infrastructure Projects Corporation) of $20 million largely offset by repayments from the Ontario Power Authority (OPA) of $636 million and from Ontario Lottery and Gaming Corporation (OLG) of $142 million.

The OFA continued to provide investment management services to other public bodies, in managing funds totalling $2.2 billion (2006 – $2.3 billion) as reported in Note 7.

In aggregate, the OFA recovered operating costs from agencies, related parties and school boards amounting to $4.6 million, an increase of $1.1 million from the $3.5 million recovery in 2006. The OFA's income from operations for the year ended March 31, 2007 was $9,000 (2006 – $4,000).

The OFA has been involved in providing financial advice to the government on various asset optimization initiatives as well as strategic advice on financial and investment policy issues associated with electricity sector reform. OFA staff continue to manage post-sale activities of the Province of Ontario Savings Office (POSO), including legal requirements and liaison with former POSO clients, to ensure that the needs of former POSO account holders are adequately met. Upon the sale of POSO, the Province provided a guarantee up to March 31, 2008, for POSO term deposits purchased up to March 31, 2003. The remaining outstanding amount of term deposits guaranteed as at March 31, 2007 was $96 million.

Financial Statements

Responsibility for Financial Reporting

Auditor's Report

Balance Sheet

Statement of Net Income and Retained Earnings

Cash Flow Statement

Responsibility for Financial Reporting

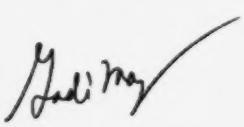
The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of Management. The preparation of financial statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 5, 2007.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to Management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for overseeing that Management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with Management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:



Gadi Mayman
Chief Executive Officer and Vice Chair
Ontario Financing Authority

Auditor's Report

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 2007, and the statements of net income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 5, 2007

Jim McCarter, CA
Auditor General
Licensed Public Accountant

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Balance Sheet

As at March 31, 2007

(in thousands of dollars)	2007	2006
ASSETS		
Current assets		
Cash	$ 436	$ 150
Interest receivable	2,032	2,029
Due from agencies & related parties (Note 7)	1,255	1,119
Due from the Province of Ontario	1,108	829
Total current assets	**$ 4,831**	**$ 4,127**
Fixed assets (Note 3)	1,495	2,058
Loans receivable (Note 2)	79,021	79,021
Total assets	**$ 85,347**	**$ 85,206**
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Due to the Province of Ontario - operating	$ 1,108	$ 829
Due to the Province of Ontario - interest	2,029	2,029
Due to the Province of Ontario - recoveries (Notes 6, 7)	1,545	1,129
Total current liabilities	**$ 4,682**	**$ 3,987**
Long-term debt (Note 2)	79,021	79,021
Deferred revenue for fixed assets (Note 4)	1,495	2,058
Retained earnings	149	140
Total liabilities and retained earnings	**$ 85,347**	**$ 85,206**

See accompanying notes to financial statements.

Approved on behalf of the Board:

Colin Andersen
Chair

Gadi Mayman
Chief Executive Officer and Vice-Chair

Statement of Net Income and Retained Earnings

For the year ended March 31, 2007

(in thousands of dollars)	2007	2006
REVENUE		
Interest revenue	$ 7,603	$ 7,599
Cost recovery from the Province of Ontario (Note 6)	15,003	14,876
Total revenue	**$ 22,606**	**$ 22,475**
EXPENSES		
Salaries, wages and benefits	$ 14,058	$ 13,512
Interest on long-term debt	7,594	7,595
Administrative and general	4,162	3,482
Amortization	1,360	1,378
Subtotal	**$ 27,174**	**$ 25,967**
Less: cost recovery from Agencies & related parties (Note 7)	(4,577)	(3,496)
Total expenses	**$ 22,597**	**$ 22,471**
Net income	9	4
Retained earnings, beginning of year	140	136
Retained earnings, end of year	**$ 149**	**$ 140**

See accompanying notes to financial statements.

Cash Flow Statement

For the year ended March 31, 2007

(in thousands of dollars)	2007	2006
Cash flows from operating activities		
Net income	$ 9	$ 4
Adjustment for amortization	1,360	1,378
Decrease / (increase) in interest receivable	(3)	—
Decrease / (increase) in due from agencies & related parties	(136)	—
Increase in recoveries due to the Province	416	—
Increase / (decrease) in deferred revenue	(563)	(167)
Cash flows from operating activities	$ 1,083	$ 1,215
Cash flows from financing activities		
Repayments to the Province re: OMIC loans	—	(6)
Repayments from holders of OMIC loans	—	6
Cash flows from financing activities	—	—
Cash flows from investing activities		
Purchase of fixed assets	(797)	(1,211)
Cash flows used in investing activities	(797)	(1,211)
Net increase in cash	286	4
Cash, beginning of year	150	146
Cash, end of year	**$ 436**	**$ 150**

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended March 31, 2007

BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993*. In accordance with the act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario
- manages the Provincial debt
- provides financial and centralized cash management services for the Province
- advises ministries, Crown agencies and other public bodies on financial policies and projects
- assists Crown agencies and other public bodies to borrow and invest money
- acts at the direction of the Province in lending to certain public bodies
- invests on behalf of some public bodies.

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The financial statements are prepared in accordance with Canadian generally accepted accounting principles prescribed by the Canadian Institute of Chartered Accountants.

Fixed assets: Fixed assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

Furniture and equipment	5 years
Computer hardware	3 years
Leasehold improvements	Term of lease plus one renewal period

Funding received from the Province and the Agencies for the acquisition of fixed assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the fixed assets.

Measurement uncertainty: The preparation of these financial statements requires management to make estimates that are based on the best information available at the time of preparation of the financial statements and will be updated annually to reflect new information as it becomes available.

2. ONTARIO MUNICIPAL IMPROVEMENT CORPORATION (OMIC)

In accordance with the *Capital Investment Plan Act, 1993*, OMIC's assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) which were used to make loans to municipalities and school boards under similar terms as its debt.

The maturities of the outstanding loans receivable and outstanding debt payable to the Canada Pension Plan are set out below:

(in thousands of dollars)

Maturing in:	Principal Maturing	Average Interest Rate (%)
2010	$ 5,156	10.86
2011	29,630	9.97
2012	44,235	9.22
Total	**$ 79,021**	**9.61**

3. FIXED ASSETS

The net book value (NBV) of fixed assets is as follows:

(in thousands of dollars)

	Cost	Accumulated Amortization	NBV March 31, 2007	NBV March 31, 2006
Furniture and equipment	$ 549	$ 340	$ 209	$ 90
Computer hardware	8,600	7,585	1,015	1,553
Leasehold improvements	1,526	1,255	271	415
Total	**$ 10,675**	**$ 9,180**	**$ 1,495**	**$ 2,058**

4. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province and the Agencies for the acquisition of fixed assets.

(in thousands of dollars)

	Province	Agencies	Total
Balance, beginning of year	$ 1,824	$ 234	$ 2,058
Capitalization	797	—	797
Amortization	(1,175)	(185)	(1,360)
Balance, end of year	**$ 1,446**	**$ 49**	**$ 1,495**

5. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in the financial statements. Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating $3.6 billion expiring from 2027 to 2032. Repayments received from public bodies by the OFA are forwarded to the Province. In compliance with the Ontario Financing Authority Lending Policy adopted by its Board of Directors on December 17, 1997, each advance received by the OFA under the current facility bears interest at a rate that is equivalent to the rate of interest payable to the OFA on the corresponding loan to the public body.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements consisting of a number of promissory notes for terms not exceeding one year. The promissory notes are later converted to term debt and repayment terms are finalized at that time. As of March 31, 2007, the amounts receivable by the OFA on behalf of the Province represent debentures, except for the short-term loans to the Ontario Power Authority, and the lines of credit to the Ontario Northland Transportation Commission and to the Ontario Infrastructure Projects Corporation.

The following represents amounts receivable by the OFA including accrued interest. These amounts are in turn owed to the Province by the OFA. These are related party transactions, with the exception of those with the Corporation of the City of Windsor.

(in thousands of dollars)

	March 31, 2007	March 31, 2006
Centennial Centre of Science and Technology	$ 6,011	$ 9,017
Corporation of the City of Windsor	23,955	22,512
Ontario Infrastructure Projects Corporation	20,263	—
Ontario Lottery and Gaming Corporation	393,150	535,248
Ontario Northland Transportation Commission	47,161	49,534
Ontario Power Authority	75,610	711,692
Schoo 'Boards	770,769	—
	$ 1,336,919	**$ 1,328,003**

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act, 1990*. The loan will be repaid in installments to March 15, 2013 and bears interest at 4.23 per cent.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of a provincial division courthouse and city police headquarters. This is a 20 year debenture at 6.41 per cent maturing in March 2021.

The Ontario Infrastructure Projects Corporation (including the former Ontario Strategic Infrastructure Financing Authority) obtained a 10-year Revolving Credit Facility from the OFA for a maximum amount of $200 million on June 23, 2006. The OIPC first borrowed through this credit facility on October 16, 2006 and as of March 31, 2007, it had drawn $20 million at interest rates ranging from 4.1 to 4.3 per cent.

The Ontario Lottery and Gaming Corporation is a Crown agency of the Province under the *Ontario Lottery and Gaming Corporation Act, 1999*. Members of the corporation are appointed by the Lieutenant Governor in Council. The OLGC outstanding loan of $393 million was issued on June 30, 2004 to purchase the casino complex in Niagara Falls. This is a five year loan at 4.3821 per cent maturing in June 2009.

The Ontario Northland Transportation Commission is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. The ONTC debentures (outstanding as of March 31, 2007 - $32.1 million, 2006 - $34.5 million) were originally issued in six stages maturing from 2008 to 2031 bearing interest at rates varying from 4.717 to 6.37 per cent. ONTC's operating lines of credit were extended to March 2008 by Order in Council to a maximum of $15 million. As of March 31, 2007, the full amount of $15 million had been drawn (2006 - $15 million) bearing interest at 4.46 per cent.

The Ontario Power Authority, established in December 2004, is a not-for-profit corporation. The OFA has provided the OPA with a revolving credit facility of $975 million expiring December 31, 2010. The interest rate on the outstanding loan is 4.40 percent.

In November 2006, the OFA advanced loans to school boards under the *Good Places to Learn* initiative in the amount of $771 million including interest to March 31, 2007. The school boards are committed to make semi-annual blended payments of principal and interest for 25 years. The loans bear interest at 4.56 per cent. The OFA recovered $151,000 in costs associated with the financing and the management of the school board loans.

6. DEBT MANAGEMENT FOR THE PROVINCE

The OFA manages debt and investment on behalf of the Province, including the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement* (ONFA). The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission existing nuclear power stations. The agreement came into force during 2003-04.

Cost recovery from the Province for all debt management and investment activities for the period ended March 31, 2007 was $15 million (2006 - $14.9 million).

7. INVESTMENT AND DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides services to agencies, related parties and other public bodies (listed below), including investment management services on a cost recovery basis amounting to $67,000 for the year ended March 31, 2007 (2006 - Nil) of which $16,000 (2006 - Nil) is outstanding at March 31, 2007. Funds managed on behalf of these other public bodies amounted to $2.2 billion at March 31, 2007 (2006 - $2.3 billion).

Algonquin Forestry Authority
Deposit Insurance Corporation of Ontario
Northern Ontario Heritage Fund Corporation
Ontario Immigrant Investor Corporation
Ontario Infrastructure Projects Corporation
Ontario Realty Corporation
Ontario Securities Commission
Ontario Trillium Foundation
Pension Benefits Guarantee Fund

In addition, the OFA provides debt management services on a cost recovery basis to agencies and related parties as set out below:

Agencies:

Ontario Electricity Financial Corporation (OEFC)

OEFC is responsible for servicing and retiring the debt and certain other liabilities of the former Ontario Hydro. The OFA provides financial services and advice to OEFC and manages its debt portfolio amounting to approximately $27.9 billion.

Ontario Infrastructure Projects Corporation (OIPC)
The OFA manages the debt of OIPC of $2.4 billion including loans from the Province, a provincial agency and third parties.

Related parties:

School Boards
As described in Note 5, the OFA made loans to school boards and recovered costs in the amount of $151,000.

Total costs recovered and amounts outstanding at the end of the year from OEFC, OIPC and the related parties are set out below:

(in thousands of dollars)

	March 31, 2007	March 31, 2006
Costs Recovered:		
Agencies:		
OEFC	$ 3,330	$ 2,497
OIPC	1,029	999
Related parties	218	—
Total	$ 4,577	$ 3,496
Receivables:		
Agencies:		
OEFC	$ 875	$ 684
OIPC	213	435
Related parties	167	—
Total	$ 1,255	$ 1,119

8. FUTURE EMPLOYEE BENEFITS

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government Services (MGS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGS and is not reported in these financial statements.

9. FINANCIAL INSTRUMENTS

The carrying amounts for cash, accounts receivable, loans receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

Given that the terms and amounts of the OFA's long-term receivables offset the OFA's long-term debt, providing fair values for these instruments would not add useful information to that which has already been presented in these financial statements.

10. CONTINGENCIES AND COMMITMENTS

At March 31, 2007, there were no claims under which the OFA would be financially liable. Civil litigation and grievance proceedings have resulted from the OFA's operations of the Province of Ontario Savings Office until the date of its sale on March 31, 2003. However, settlements, if any, arising from these POSO claims will be accounted for by the Province in the period in which settlement occurs.

11. COMPARATIVE FIGURES

The prior year's comparative figures have been reclassified to conform with the financial statement presentation adopted for March 2007.

Corporate Governance

Corporate Governance

Financial Reporting

Internal Controls

Board of Directors

Corporate Governance

Corporate governance involves processes that permit the effective supervision and management of the OFA's activities by senior management, the Board of Directors and the Minister of Finance. It includes identifying individuals and groups responsible for the OFA's activities and specifying their roles. The OFA's governance framework is fully described in its corporate governance policy.

Accountability

The OFA's accountability structure flows from its governing statute, the *Capital Investment Plan Act, 1993* and from a Memorandum of Understanding between the OFA and the Minister of Finance, as well as directives issued by Management Board of Cabinet (MBC) relating to Crown agencies. Together, these provide that the Minister of Finance is accountable to the Legislature for fulfillment of the OFA's mandate. In turn, the Chair of the Board of Directors is accountable to the Minister for the performance of the OFA in fulfilling its mandate. The Board of Directors is appointed by the Lieutenant Governor in Council and is accountable to the Minister of Finance, through the Chair, for supervising the management of the OFA's business. The Chief Executive Officer (CEO) is accountable to the Chair of the Board for the day-to-day management of the OFA's operations and the management and supervision of staff. Staff are appointed pursuant to the *Public Service Act* and are subject to MBC policies and directives applicable to public servants. Staff are accountable, through senior management, to the CEO.

Roles and Responsibilities

The Minister of Finance maintains communications with the OFA through the Chair regarding government policies and expectations relevant to the OFA. The Minister is responsible for reviewing and approving the annual business plan and for recommending the plan for approval to MBC every three years or as otherwise required by government directives.

The Chair, who is also the Deputy Minister of Finance, provides leadership and direction to the CEO and the Board and ensures the OFA complies with government policies and directives. The CEO is responsible for the ongoing activities of the OFA and ensures that policies and procedures remain relevant and effective.

The Board of Directors meets at least quarterly and receives regular reports from the CEO and other OFA staff concerning the operations of the OFA and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board-approved Code of Conduct.

There are also two committees of the Board to assist it in supervising the activities of the OFA. The Audit Committee of the Board is described in the financial reporting section below. The Human Resources Committee was created in 2006-07 to assist the Board in ensuring appropriate measures are in place to recruit, train and retain qualified staff in critical areas.

Financial Reporting

The OFA prepares annual financial statements in accordance with Canadian generally accepted accounting principles. They are reviewed and recommended by the Audit Committee and approved by the Board of Directors. Unaudited financial statements are prepared quarterly and presented to the Audit Committee and the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly and in accordance with Canadian generally accepted accounting principles. The findings are reviewed by the Audit Committee and the Board of Directors. These audited financial statements are tabled in the Ontario Legislature as part of the OFA's Annual Report and are included as a schedule to the Public Accounts of the Province.

Internal Controls

Management is responsible for establishing and maintaining adequate internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. These controls:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions
- provide reasonable assurance that transactions are executed in accordance with authorizations
- provide reasonable assurance regarding prevention or timely detection of unauthorized transactions that could have a material effect on the financial statements.

In meeting its responsibility for the reliability and timeliness of financial information, the OFA uses a comprehensive system of internal controls, including organizational and procedural controls. The system for internal controls includes:

- written communication of policies and procedures governing corporate conduct and risk management
- comprehensive business planning
- segregation of duties
- responsible delegation of authority and personal accountability
- careful selection and training of personnel
- regularly updated accounting policies.

As part of its annual business plan, the OFA conducts a risk assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan, based on its risk assessment and input from the OFA Audit Committee and OFA management. The internal audit plan is presented for review and approval by the OFA Audit Committee. Internal Audit reports to the OFA Audit Committee on the results of their audit work in the OFA.

Board of Directors

The following individuals were members of the Board of Directors in 2006–07:

Colin Andersen, Chair of the Ontario Financing Authority and Deputy Minister of Finance. Colin was appointed Deputy Minister of Finance in February 2004 and became Deputy Minister of Revenue in 2007. His appointment expires when a successor deputy minister is appointed.

Colin was formerly Deputy Minister, Policy, Cabinet Office. He also served as the Associate Deputy Minister, Ministry of Health and Long-Term Care, the Assistant Deputy Minister, Integrated Policy and Planning, Ministry of Health and Long-Term Care and Assistant Deputy Minister, Fiscal and Financial Policy, Ministry of Finance. Colin has a B.A. in Economics (Honours) from the University of Calgary and an M.A. in Economics from the University of Toronto.

Gadi Mayman, Chief Executive Officer of the Ontario Financing Authority. Gadi was appointed to the OFA Board of Directors in November 2003; his appointment expires in July 2008.

Gadi is responsible for the Province of Ontario's medium and long-term borrowing strategy, banking relationships and policies related to debt management. He advises the Province on the use of the Provincial credit and relations with the capital markets and investors. Gadi is also Chief Executive Officer of the OEFC, responsible for its day-to-day operations.

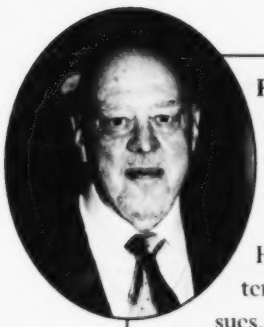
Gadi is a director on the boards of Infrastructure Ontario and the Ontario Clean Water Agency (OCWA). He is also Chair of the OCWA Audit Committee, and Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and Ontario Power Generation Inc. (OPG) committee.

Prior to joining the Ontario Ministry of Finance in 1991, Gadi worked as a treasury officer at the Export Development Corporation (EDC) in Ottawa for three years and in the International Division of the Toronto Dominion Bank for five years. Gadi received a B.A. Sc. in Industrial Engineering from the University of Toronto in 1981, and an M.B.A. from the University of Western Ontario in 1988.

Lorraine Bell, CA, was appointed to the OFA Board of Directors from October 2005 to October 2008. Lorraine is also a member of the Audit Committee and the Human Resources Committee of the Board of Directors.

Lorraine has over 25 years of financial experience, including over 13 years' experience in the derivatives markets. She is currently a Trustee, Chair of the Audit Committee and member of the Governance Committee for Royal LePage Franchises Services Fund. Lorraine was formerly a Vice-President and Director with General Re Financial Products Canada (GRFP). Prior to joining GRFP, she worked as a financial consultant, and was a Vice President at a number of corporations including Confederation Treasury Services Limited, Prudential Global Funding, and Citibank Canada. Before joining Citibank Canada, Lorraine was with Touche Ross & Company (now Deloitte & Touche) as a member of the audit group and obtained her CA designation at that time.

She is an active volunteer and past board member of a number of charitable organizations in Ontario. Lorraine is a member of the Institute of Corporate Directors.



Robert Brown, B.Com, M.A., FCA, is a past Chair and past Chief Executive Officer of Price Waterhouse (now PricewaterhouseCoopers). Robert was appointed to the Board of Directors from April 2005 to April 2008 and was appointed Vice-chair of the OFA in April 2007.

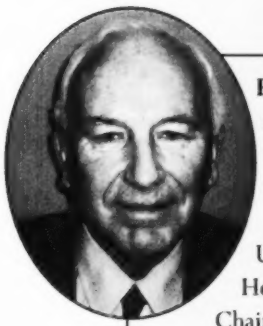
He has served as Chair of the Canadian Tax Foundation and the Canadian Institute of Chartered Accountants. Robert has an extensive background in tax, fiscal and governance issues. He was a member of the Toronto Stock Exchange Committee on Corporate Governance. Robert also served a term as the Clifford Clark Visiting Economist to the Department of Finance, providing advice to the Department and the Minister on fiscal, tax and economic policy issues. More recently, Robert served as co-chair of a federal committee to review tax assistance for the disabled. He is a director of Canadian Apartment Properties Real Estate Investment Trust and has served as a director of other public Canadian companies.

Robert has served in a number of volunteer positions and is a past Chair of the C.D. Howe Institute and a frequent speaker and writer on economic and tax policy issues. He is a director of Canadian Policy Research Networks and a past director of the Institute of Corporate Directors. Robert is a graduate of the University of Toronto (B.Com.) and of the University of Chicago (M.A., Economics).

Mario Ferrara was appointed to the Board of Directors from April 2005 to April 2008. Mario is the Chair of the Audit Committee.

Previously, Mario served as Managing Director and Head of the Government Finance group at Scotia Capital in Toronto. The group provided a wide range of financial advice and executed financing transactions for the firm's government and government-related clients.

Mario's investment management experience includes senior positions in the private and public sector. As Vice-President, Investments at E-L Financial Corporation, he was head of the investment group with direct responsibility for managing the fixed-income portfolios of the company's life and casualty insurance subsidiaries. Prior to joining E-L Financial, Mario spent 12 years at Ontario Hydro in a number of finance-related positions including portfolio manager of the fixed-income assets of the Ontario Hydro Pension Plan. Later at Ontario Hydro, he was Assistant Treasurer–Corporate with responsibility for management, development and execution of funding plans, investor relations and corporate insurance. Mario holds a B. Comm. and M.B.A. from McMaster University.



Patrick Lavelle is Chairman and Chief Executive Officer of his own strategic management consulting firm established in 1991. Patrick was appointed to the Board of Directors from December 2005 to December 2008. Patrick is the Chair of the Human Resources Committee and a member of the Audit Committee.

Until March of 2002, Patrick was Chairman and CEO of Unique Broadband Systems Inc. He is a past-Chairman of Export Development Canada and also served a three-year term as Chairman of the Board of the Business Development Bank of Canada. Prior to establishing his own firm, Patrick was Vice President, Corporate Development, Magna International Inc. In 1985 he was appointed Deputy Minister of Industry Trade and Technology for the Province of Ontario. At the same time, he was the first Secretary of the Premier's Council which produced an economic blueprint for the Ontario economy. Patrick served as President and CEO of the Automotive Parts Manufacturers' Association of Canada and Agent General for the Government of Ontario in Paris, France. He was also Sales and Marketing Director of Consumer's Packaging, and an executive assistant to the Federal Minister of Labour and Health and Welfare.

Patrick is a director of a number of public and private Canadian and U.S. companies. He is a member of the Advisory Board of the International M.B.A. program at York University.

Carol Layton, Deputy Minister of Public Infrastructure Renewal. Carol was appointed to the Board of Directors from July 2003 to July 2009. Carol also is a member of the Audit Committee and the Human Resources Committee.

Carol was previously Ontario's Deputy Minister of Results Delivery within Cabinet Office, Deputy Minister of Citizenship and Immigration as well as Deputy Minister Responsible for Women's Issues and Seniors. She has held various senior positions in the Management Board Secretariat and the Ministries of Health and Long-Term Care, Finance, the Attorney General and Treasury and Economics. Carol also serves as the 2007 President of the Institute of Public Administration of Canada (IPAC).

Jack M. Mintz, Previously, Jack was President and Chief Executive Officer, C.D. Howe Institute throughout 2005–06. Jack was appointed to the Board of Directors from September 2003 to September 2009.

Jack also serves on various corporate and not-for-profit boards. He has published more than 180 books and articles in the fields of public economics and fiscal federalism. He serves on the Board of Governors of the National Tax Association in Washington, D.C., is an Associate Editor of Contemporary Accounting Research and International Tax and Public Finance and is a research fellow of CESifo, Munich, Germany. He is also Deloitte and Touche LLP Professor of Taxation at the Joseph L. Rotman School of Management and co-director of the International Tax Program at the Institute of International Business, both at the University of Toronto.

Jack has served as a visiting economist at the Department of Finance, Ottawa, and Chair of the federal government's Technical Committee on Business Taxation in 1996 and 1997; Associate Dean (Academic) of the Faculty of Management, University of Toronto, 1993–95; a special advisor to the Deputy Minister, Tax Policy Branch, Department of Finance, Ottawa, 1984–86; and Director of the John Deutsch Institute, Queen's University, 1987–89.

Frank Potter, Chairman of Emerging Markets Advisors Inc., Toronto. Frank was a member of the Board of Directors from May 2000 until June 2006.

Tye Burt, President and Chief Executive Officer, Kinross Gold Corporation. Tye was a member of the OFA Board of Directors from June 2000 to July 2006.

Risk Management Policies and Procedures

OFA risk management policies and procedures provide for the management of risk exposures created by capital market activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to the Province's debt and derivatives portfolios and capital markets transactions.

The policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements and in consultation with Canadian bank representatives on their risk management practices.

The Board approves risk management policies and monitors the performance of capital market activities.

Market Risk Policy

Market risk is the risk of financial loss attributable to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- Foreign Exchange Limit: unhedged foreign currency exposure is limited to five per cent of outstanding debt. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.

- Interest Rate Resetting Limit: the interest rate resetting risk exposure is the sum of maturities and floating-rate debt with interest resets over the next 12 months and is limited to a maximum of 35 per cent of outstanding debt.

- Interest on Debt (IOD) Loss Limit: the total amount of financial losses resulting from market risk cannot exceed three per cent of budgeted IOD for a fiscal year. In addition, the CEO establishes a trigger level to ensure that losses from market activities will not reach the debt cost loss limit. The trigger level is included in the Annual Financing, Debt and Electricity Management Plan.

The OFA identifies and quantifies exposures to market risk in its Annual Financing, Debt and Electricity Management Plan to ensure that risk exposures and losses remain within the approved exposure and loss limits. Exposure to market risk is measured and reported daily.

When issuing new debt on behalf of the Province, the OFA will aim for a smooth debt maturity profile to diversify the interest rate risk for the refinancing of maturing and floating rate debt.

Credit Risk

Credit risk is the risk of loss in which a counterparty does not meet, or defaults on, its obligations. Credit risk arises when the OFA undertakes financial and derivative transactions. The minimum credit rating of a counterparty for a new swap transaction is typically AA– and R1-mid for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating and capital base. Concentration limits are also in place to limit exposure. Credit exposure is measured and reported daily.

Policy on the Use of Derivatives

Derivatives are used to manage exposures arising from existing and planned debt issues in a sound and cost-effective manner consistent with the Annual Financing, Debt and Electricity Management Plan. Risks arising from the use of derivatives are monitored and managed prudently.

Policy on Risk Management Reporting

At its regular quarterly meetings, the Board of Directors is kept informed of the OFA's activities:

- The CEO provides the Board of Directors with a progress report on the implementation of the Annual Financing, Debt and Electricity Management Plan, staffing and other administrative and operational matters. The CEO also reports on the OFA's compliance with applicable government directives.

- The Director of Risk Control reports on program exposures and performance as well as exceptions to policies.

In addition, management is kept informed of OFA's risk exposures and positions on a daily basis.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events. Each division manages operational risk through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers the OEFC's operations) that is regularly updated to facil itate the continuation of essential operational functions with a minimum of disruption in the event of an emergency.

Appendices

Ontario's Credit Ratings

Additional Sources of Information

Ontario's Credit Ratings

A credit rating is a current assessment of the creditworthiness of a borrower with respect to a specified obligation. It indicates the capacity and willingness of a borrower to pay interest and principal in a timely manner.

Long-Term Ratings

Long-term ratings are assigned a letter grade ranging from investment grade, to speculative grade, to highly speculative or default. Ratings within each category may include a "plus" or "minus" (or a high or low) to indicate the relative strength of rating within that category. The current long-term ratings of the Province of Ontario are as follows:

- Standard & Poor's Corporation (New York) — AA
- Moody's Investors Service (New York) — Aa1
- DBRS (Toronto) — AA

Short-Term Ratings

Short-term ratings are for debt maturities of less than one year. Ratings are graded into several categories, ranging from the highest-quality obligations to default. The current short-term ratings of the Province of Ontario are as follows:

- Standard & Poor's Corporation (New York) — A-1+
- Moody's Investors Service (New York) — P-1
- DBRS (Toronto) — R-1 (high)

Additional Sources of Information

www.ofina.on.ca

Provides information on Ontario's borrowing program and debt, and contains publications from the Ontario Financing Authority and Ontario Ministry of Finance.

Ontario Budget

The Borrowing and Debt Management chapter discusses the Province's borrowing and debt management activities for the fiscal year ended and outlines the outlook for the upcoming fiscal year.

Quarterly Finances – OFA Bulletin

Quarterly updates of the government's annual budget forecast. Quarterly finances information is also available on the Ministry of Finance website, www.fin.gov.on.ca.

Form 18-k

The Province's annual report to the U.S. Securities and Exchange Commission (SEC).

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